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Subject: **GROWTH, REPRIEVE OR PERFECT STORM**

MATURE RETIREMENT PLANS MARKET

Like any industry, some of the research produced by the retirement plans industry is good, but most of it has always been weak and wildly optimistic. Telling clients what they want to hear is a sound business strategy, but it is not research.

Ignoring increasingly likely geopolitical & external shocks, a public option and the impact of tax code changes, let's take a realistic look at the retirement plans market. The employer sponsored retirement plans market is huge and the non-DC plan assets in the nonprofit markets have always been under estimated. While pockets of opportunity still exist, we are not believers in the optimistic projections for continued growth in the employer sponsored retirement plans market.

Meaningful data is always lagging, but plan formations and conversions are peaking. Automatic enrollment has been a positive development, but participation rates, contributions and employer matches may be peaking as well. Indeed, **the ability to save and the need to save are very different.**

At the same time, loans, hardship withdrawals and distributions are increasing. Few in the industry discuss it, but **DC plan distributions already exceed contributions and that trend will continue to accelerate.**

Retirement plan provider margins are weak and headed lower. The eroding margins will trigger another round of consolidation that will benefit the survivors, but it won't increase the pool of assets. Negative stable value returns could also have a meaningful impact on the general account providers using the option to subsidize their book of business.

In summary, **the optimistic projections for DC plan growth are based solely on positive investment returns and the continued defunding of other consumer expenditures**, a shaky proposition at best.

UNCERTAIN ECONOMY & INVESTMENT MARKETS

The investment markets are forward looking animals. Like any wild beast, their behavior is hard to predict. The modest pickup in third quarter growth and the subsequent rally in equities was a welcome tonic, but it isn't enough to produce meaningful job growth, higher incomes or quell the fears of another recession. On the other hand, corporate profits have improved and the nation's employers have never been so under-employed.

Mixed signals continue, but anyway you look at it, **real income continues to decline, the sharp drop in home values show no sign of recovering and delinquencies are on the rise again.** Real estate and small business loans are also nearly impossible to obtain. Indeed, the era of debt financed consumerism has ended. This is not good news for consumer spending, which comprises 70% of the nation's GDP.

In addition to declining income, **the consumer is burdened with a sharp jump in the cost of living** – particularly energy, food, insurance & healthcare – reduced benefits and higher taxes. It isn't just the federal, state, local, sales and real estate taxes, but the hidden user taxes on everything from gasoline, tolls, electricity, phone, home heating, water, cigarettes, liquor, etc. The list is simply endless. In spite of the already high tax burden, the state and local governments are near broke due to fiscal irresponsibility.

Spending and saving habits have already changed and **it's hard to conclude that retirement plan participants will be able to maintain current contribution levels or that the stagflationary environment will generate a meaningful string of positive investment returns.**

The record level of debt outstanding is another impediment to growth. Three years after the financial crisis, **household, business and federal debt is at a record $37 trillion** and that excludes unfunded liabilities for Medicare and Social Security. Fiscal and monetary options are limited, **deleveraging is still in its early stages** and reduced government spending will be drag on the economy. In trench level terms, the party was great, but the hangover will be long and painful.

MATURE ADVISORY INDUSTRY

Like the retirement plans market and the economy, the advisory industry has matured. The ever changing regulatory market is increasingly complex and remaining compliant with overlapping regulators requires a Herculean effort.

In addition to more regulations and litigation, increased transparency, higher standards, additional compliance costs, a transition to fee-based business and fee compression are here to stay. At the same time, competition is intensifying and while it is an evolutionary process, **differentiation has become increasingly difficult.**

The possibility of a perfect storm, i.e., a mature retirement plans market, a faltering economy, poor investment returns, a mature advisory market and tax code changes, is very real. It may not happen, but **advisors should be prepared**. Indeed, there is no downside to preparation.

We would start by eliminating ALL the noise and focusing on what can be controlled. Aside from compliance, we would diversify, develop new growth strategies, **prioritize higher margin business**, efficiency and client retention. We would also look at vendor platforms as a source of distribution.

While specialists may continue to consolidate mid-market business with shrinking margins, **the growth will no doubt be driven by outcomes based consulting,** the final leg of a maturing advisory industry. Some advisors would also be wise to consider distributing products and services offered by other RIAs with existing clients.

We would also prioritize the development of an investment approach with pricing power, model portfolios, participant elected managed account services, participants who have already accumulated wealth and the nonprofit markets, including companion DB & NQDC plans.

THE IMPACT OF TAX REFORM

Given the deficits, the total debt outstanding and the strain on Medicare & Social Security, the nation's legislators are seeking new ways to generate tax revenue.

Bipartisan members of Congress have expressed support for lowering individual tax rates and broadening the tax base. This would be accomplished by lowering or eliminating "tax expenditures." Given the limited options, **the deferrals permitted for retirement plan contributions are in the crosshairs.**

The Deficit Commission, the Joint Committee on Taxation and others have suggested a reduction in the tax incentives applicable to retirement plan contributions, a cap on contributions and other revenue raising proposals.

401(k) type contributions are clearly one of the largest "tax expenditures," but policymakers don't seem to fully understand that they do not represent lost revenue, but rather deferred revenue. Based on a polarized political atmosphere, major tax reform is not likely before 2013, but the House Ways & Means Committee and the Senate Finance Committee are subject to influence.

While Americans are under saved for retirement and living longer, **the DC plan system has been the most effective retirement plan savings vehicle in history.** The demise of DB plans and home values have also increased the percentage of household wealth held in DC plans. Influenced by left of center academicians and an inherent dislike for DC plans, the nation's legislators - both Democrats & Republicans - don't seem to care.

If retirement plan tax advantages were eliminated or reduced in a meaningful way, **corporate sponsorship would drop, matches would be eliminated, participants would stop saving and retirement readiness would tank.** The time and expense associated with new plan design would simply not be worth the effort. Termination among small plans that use cross-testing could be particularly high.

While the impact of major tax reform on retirement plan participants has been widely discussed, **few have noted how the tax code changes would transform and wreak havoc on the retirement plans advisory industry.** As noted by Marcia Wagner (Director, The Wagner Law Group), the use of Roth accounts, Roth IRAs and tax advantaged investments outside qualified plans would, however, spike.

LOBBYIST PROPAGANDA vs. PARTICIPANT ADVOCACY

The nonprofit retirement plans market is far less mature than the corporate markets. The companion DB, NQDC and other plans are also richer and more stable. Given the huge opportunity, advisors have increased their focus on 403(b) plans in recent years.

Based on an evolving regulatory environment, the need for fiduciary oversight and increased use of consultants, nonprofit plan sponsors are steadily moving away from a multi-vendor approach and retail products.

Ignoring the fact that the multi-vendor individual annuity approach is almost impossible to administer in an ERISA 403(b) plan environment, **individual annuity products are not a prudent plan level choice for retirement plan fiduciaries.**

Ironically, ASPPA is championing the status quo by continuing to support the use of high cost individual annuity products when more competitive investment options are widely available. Given their industry stature and fiduciary support for 401(k) plans, it is contradictory to support the sale of these products to 403(b) participants by advisors who are not licensed to provide participant level investment advice. In short, ASPPA is on the wrong side of history and the fiduciary debate.

ASPPA's recent release on *Protecting Participation: The Impact of Reduced Choice by School District Employees in 403(b) Plans* should be renamed. A more appropriate title would be: ***Abusive Fees, Sales Loads, Surrender Charges, Non-Licensed Advice Providers, Needless Administrative Complexities & Inappropriate Fiduciary Decisions Are Vital to ASPPA's NTSAA Sponsors.***

Individuals eligible for nonprofit plans with multiple vendors are already free to engage ANY appropriately licensed individual for participant advice. They don't need products with bundled commissions, abusive fees, sales loads and surrender charges to obtain advice. It is, however, important to note that a registered rep, many of which are dually registered, can be just as skilled as fee-based IARs. In totality, there is very little difference between the fees charged by IARs and commissions paid to advisors. Fees and contract provisions associated with individual annuities are, however, another matter. In short, this is about fiduciary standards and competitive products, not advisor compensation.

Attempts to hide behind choice and transparency are flawed, irrelevant and lack credibility. Supplemental 403(b) plans have become increasingly important and while transparency is important, **participants that do not have access to institutional products are better off not participating in these plans.** A choice between cancer, a heart attack and abusive products is no choice at all. An institutional workplace retirement plan program is the preferred choice, but those eligible can always open a Roth, a traditional IRA, purchase a non-qualified Vanguard type annuity or a low fee index fund with minimal portfolio turnover.

ASPPA has done many good things for the industry, but their current position precludes nonprofit plan participants from retiring with dignity and undermines their commitment to the retirement plans system. ASPPA's members should rise up, right the ship and restore credibility. **Non-competitive products cannot be justified in an ERISA environment** when institutional products are widely available.

CFDD 2012 ADVISOR CONFERENCE

The CFDD's October 22-24, 2012 Advisor Conference, *Outcomes Based Consulting & Developing New Higher Margin Business,* will return to the conveniently located downtown Chicago Swissotel. Completing the transfer from advisor to consultant is particularly important because professional retirement plan advisors are becoming the key determinant to successful mid-market plans.

The two and one-half day must attend conference remains the premier education and networking event for the retirement plans advisory industry. In addition to unmatched value, the CFDD provides **exclusive growth solutions designed to put money in your pocket** and facilitate high-end networking.

Our broad, diverse and content rich agenda remains at the top of the food chain. The *sixty* different breakout sessions are populated by a Who's Who of recognized experts, including the industry's most accomplished advisors. Known as the *King of Content,* **more distinguished advisors attend the CFDD's Advisor Conference than any other industry event.** The CFDD is not a lobbyist or a vendor festival host and our ratio of advisors to total registrants remains unmatched.

While each CFDD conference has a core educational focus, the 2012 sub-themes are in the process of being determined. *Developing Advisor Constructed Model Portfolios, Participant Elected Managed Accounts via Integrated Discretionary Trading, Scalability, RIAs Distributing through Participant Level Advisors, Investing for Stagflation, Investment Returns beyond Performance* and *The Impact of Tax Code Changes* will certainly be among them. *Participant Success Metrics*, *Behavioral Finance* and *How To Evaluate Advice Providers* will also play a role. If you would like to participate in the 2012 agenda, please get involved early.

Hiring, training, succession planning and scalability remain the biggest business challenges facing advisors. Practices can't grow without staffing and they can't be monetized without succession planning. To enrich their practice, **advisors may bring one *immediate* team member at a discount.**

CE credits are invaluable to overburdened advisors. To add value and increase efficiency, the CFDD's Advisor Conference provides **a single source solution for unmatched core CE credits**, including IMCA, CFP, fi360, ASPPA, NIPA, IBF, CFA, SPARK, The American College, the College for Financial Planning and more.

In addition to **a conference CD-ROM** containing all the presentation uploads and audio files, registrants gain online **access to all prior year conference presentations** and a fiduciary insurance discount program.

Complimentary food, beverages, snacks, FREE wireless, a **NASCAR themed Kick-Off Party** and lifelike **Simulator Racecar Gameplay competition** with meaningful cash prizes are all included in the registration fee. The hotel's cell phone reception is excellent and spouses may also attend without additional cost.

NASCAR will be the marketing theme and feature a **Primary Grand Prize Box Seat Package To The Daytona 500,** including luxury beachfront accommodations. A **Secondary Grand Prize Package To The Charlotte ALL-Star May Race** will also be offered, including a hot pit pass (access to everything except the race car) and Buck Baker Racing School Classes on the Charlotte Motor Speedway.

With competition intensifying, margin compression escalating, the cost of compliance rising and looming tax code changes, **advisors would be wise to diversify and develop new higher margin business**. Consistent with our franchise, CFDD '12 will illuminate the path. To register early, **SAVE MONEY**, find out what is working from your peers and benefit from business building takeaways, go directly to: http://www.regonline.com/Register/Checkin.aspx?EventID=1026462. If you plan to exhibit, please note that the **early registration discounts** expire on 11/30/11.

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